



Amajuba District Municipality - Audit report 2014-15

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Amajuba District Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Amajuba District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance and, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Revenue and consumer debtors – Service charges

6. I was unable to obtain sufficient appropriate audit evidence that revenue and consumer debtors from service charges had been properly accounted for as there were households within the demarcations of the municipality that are not included in the database of the municipality. I was unable to confirm revenue and debtors from service charges by alternative means. Consequently, I was unable to determine whether any adjustment to revenue from service charges and consumer debtors relating to water sales stated at R17,86 million and R14,74 million in notes 18 and 9 to the financial statements was necessary.

Qualified opinion

7. In my opinion, except for the possible effect of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Amajuba District Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

Restatement of corresponding figures

8. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2015 year in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Material impairments and losses

9. As disclosed in note 9 to the financial statements, material losses to the amount of R5,69 million (2014: R7,36 million) were incurred as a result of an impairment of long outstanding debts due to poor debt collection policies and the incorrect database of households used for service charges billing at the municipality.
10. As disclosed in note 45 to the financial statements, water losses of R8,41 million (2014: R21,54 million) were incurred as a result of distribution losses.

Going concern

11. As disclosed in note 38 to the financial statements the municipality's current liabilities exceeded its current assets by R34,46 million and that available cash resources was not sufficient to cover the commitment for unspent conditional grants.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for basic service delivery, local and economic development, good governance and public participation and spatial planning and environmental management presented in the annual performance report of the municipality for the year ended 30 June 2015.
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected development priorities are as follows:

Basic Service Delivery

Usefulness of reported performance information

Consistency of objectives, indicators and targets

Reported objectives not consistent with planned objectives

18. Section 41(c) of the Municipal Systems Act (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives between planning and reporting documents. A total of 300% of the reported objectives were not consistent with those in the approved integrated development plan. This was due to a lack of skill and slow response by management to respond to recommendations by the oversight role players.

Reliability of reported performance information

19. The FMPPI requires municipality's to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 20.7% of the targets to assess the reliability of the reported performance information. This was due to limitations placed on the scope of our work by the municipality.

Local Economic Development

Usefulness of reported performance information

Consistency of objectives, indicators and targets

Reported objectives not consistent with planned objectives

20. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, between planning and reporting documents. A total of 200% of the reported objectives were not consistent with those in the approved integrated development plan. This was due to a lack of skill and slow response by management to respond to recommendations by the oversight role players.

Reported indicators and targets not consistent with planned objectives

21. Section 41(c) of the MSA requires the service delivery and budget implementation plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 33% of the reported indicators and 38% of the reported targets were not consistent with those in the approved service delivery and budget implementation plan. This was due to a lack of skill and slow response by management to respond to recommendations by the oversight role players.

Measurability of indicators and targets

Performance indicators not well defined

22. Performance indicators should be well-defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 23% of the indicators were not well-defined. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

Good governance and public participation

Usefulness of reported performance information

Consistency of objectives, indicators and targets

Reported objectives and targets not consistent with planned objectives/targets

23. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives and targets, between planning and reporting documents. A total of 250% of the reported objectives and 31% of the reported targets were not consistent with those in the approved integrated development plan. This was due to a lack of skill and slow response by management to respond to recommendations by the oversight role players.

Spatial planning and environmental management

Usefulness of reported performance information

Consistency of objectives, indicators and targets

Reported objectives not consistent with planned objectives

24. Section 41(c) of the Municipal Systems Act (Act No.32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives between planning and reporting documents. A total of 100% of the reported objectives were not consistent with those in the integrated development plan. This was due to a lack of skill and slow response by management to respond to recommendations by the oversight role players.

Additional matters

25. I draw attention to the following matters:

Achievement of planned targets

26. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs 18 to 24 of this report.

Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of basic service delivery, local economic development, good governance and public participation and spatial planning and environmental management. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary schedules

28. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

29. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

30. The performance of uThukela water (Pty) Ltd against the agreed performance objectives and indicators was not monitored and annually reviewed, as part of the annual budget process, as required by section 93C(a)(v) of the MSA.

Annual financial statements

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of liabilities, investments in associate and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Human resource management

32. Sufficient appropriate audit evidence could not be obtained that the municipality developed and adopted appropriate systems, policies and procedures to monitor, measure and evaluate performance of staff as required by section 67(d) of the MSA.

Expenditure management

33. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.
34. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) of the MFMA.

Revenue management

35. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
36. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2) (f) of the MFMA.

Procurement and contract management

37. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

Internal control

38. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

39. Leadership did not exercise adequate oversight over financial and performance reporting and compliance with laws and regulations, as well as internal control. In this regard, leadership did not ensure that credible financial and performance reports that are supported and evidenced by reliable information are prepared and that procurement of goods and services is done in accordance with the municipal supply chain management regulations.

Financial and performance management

40. Management did not diligently undertake routine monthly reconciliations and reviews, coupled with the maintenance of revenue records and debtor's records to support the amounts reported in the financial statements. Management also did not adequately prepare complete and accurate financial and performance reports and monitor compliance with legislation due to vacancies in finance and performance unit.

Governance

41. The risk assessment processes and reviews were not adequate to ensure that key financial risks were mitigated and responded to in good time by management.
42. The financial and performance review process performed by internal audit and audit committee did not adequately address the accuracy and completeness of financial and performance reports resulting in material misstatements and non-compliance with legislation.

Auditor-General

Pietermaritzburg

30 November 2015



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

